

Before the Illinois Commerce Commission

Direct Testimony of

Gordon J. Kraut, Jr.

On Behalf of

Wabash Telephone Cooperative, Inc.

(ICC Docket Nos. 00-0233 and 00-0335)

April 20, 2001

OFFICIAL FILE

ILL. C. C. DOCKET NO. 00-0233/0335
wabash
Telephone Coop. Inc. 1.0
V
DATE 6-19-01 BY CB

1 **Q. PLEASE IDENTIFY YOURSELF FOR THE RECORD.**

2 A. My name is Gordon Kraut. I am a consulting manager with GVNW Consulting,
3 Inc. GVNW Consulting, Inc.'s principal business is telecommunications
4 consulting for small independent telephone companies. My business address is
5 3220 Pleasant Run, Springfield, Illinois 62707.

6
7 **Q. PLEASE PROVIDE YOUR EMPLOYMENT BACKGROUND.**

8 A. I joined GVNW, Inc. on October 20, 1997. In my current position I consult with
9 independent telephone companies and provide financial analysis and management
10 advice in areas of concern to these companies. Specific activities include
11 regulatory analysis, consultation on regulatory policy, financial analysis, market
12 analysis, rate design and tariff development, long-range strategic planning and
13 general management consulting services. Previously, I was employed by TDS
14 TELECOM, as Manager of Revenue and Earnings in the Government and
15 Regulatory Affairs Group, where my responsibilities were to manage the revenue
16 and earnings processes, manage the development and implementation of earnings
17 strategies, and oversee rate cases, regulatory audits, and earnings reviews for the
18 TDS TELECOM companies. I also assisted in the regulatory review of telephone
19 company operating and capital budgets, and ensuring that capital recovery
20 objectives were achieved for TDS TELECOM operating companies.

21
22 In 1988, I began my telecommunications career with TDS, Inc., as an Internal
23 Auditor. In this position, I conducted both operational and financial reviews of
24 TDS, Inc.'s operating companies. In 1993, I was promoted to Senior Internal
25 Auditor where I took a more active role in managing internal audits for the

1 company. In 1994, I was promoted to Associate Manager of Accounting in TDS
2 TELECOM. My responsibilities included providing management with monthly
3 reports on company financial results, troubleshooting and providing support to the
4 region accounting staffs and helping determine accounting policy and procedures.
5 Early in 1996, I was promoted to the position of Manager of Revenue and Earnings
6 in the Government and Regulatory Affairs Group.
7

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

9 A. I graduated from Edgewood College in May 1988 with a Bachelor of Science
10 Degree in Business with an emphasis in Accounting. I was awarded a Masters in
11 Business Administration from Edgewood College in 1991.
12

13 **Q. HAVE YOU TESTIFIED BEFORE?**

14 A. Yes. I have provided testimony in the Commonwealth of Pennsylvania in rate
15 cases for Sugar Valley Telephone Company and Mahanoy & Mahantango
16 Telephone Company. I have also put in testimony on behalf of Citizens of
17 Kecksburg also in Pennsylvania in a rural exemption case.
18

19 **Q. ON WHAT COMPANY'S BEHALF IS THIS TESTIMONY SUBMITTED?**
20

21 A. Wabash Telephone Cooperative, Inc.
22

23 **Q. HAVE THE ILLINOIS UNIVERSAL SERVICE FUNDING**
24 **CALCULATIONS FOR WABASH TELEPHONE COOPERATIVE, INC.**
25 **USING THE FORMAT AGREED TO BY THE STAFF AND THE IITA**
26 **BEEN PREPARED BY YOU OR SOMEONE UNDER YOUR DIRECT**
27 **SUPERVISION?**
28

1 A. Yes it has. It is attached as Wabash Telephone Cooperative, Inc. Exhibit 1.0,
2 Schedule 1.01 and consists of three pages.

3

4 **Q. DID YOU COMPLETE WABASH TELEPHONE COOPERATIVE, INC.'S**
5 **EXHIBIT 1.0, SCHEDULE 1.01 IN ACCORDANCE WITH THE**
6 **INSTRUCTIONS AND BASED ON WABASH TELEPHONE**
7 **COOPERATIVE, INC.'S ICC FORM 23A OR OTHER INFORMATION**
8 **FILED BY THE COMPANY WITH THE COMMISSION FOR THE YEAR**
9 **ENDED DECEMBER 31, 2000?**

10

11 A. Wabash Telephone Cooperative, Inc. is a cooperative in this state and is not
12 required to file an ICC Form 23A. Instead, Wabash files an RUS 479 report with
13 the Commission. This filing has been prepared using the RUS 479 report as filed
14 with the Illinois Commerce Commission for the year ended December 31, 2000.

15

16 **Q. BASED ON THE RESPONSES AND CONTENT OF WABASH**
17 **TELEPHONE COOPERATIVE, INC. EXHIBIT 1.0, SCHEDULE 1.01, IS**
18 **WABASH TELEPHONE COOPERATIVE, INC. PROVIDING STAFF**
19 **WITH CERTAIN ADDITIONAL DOCUMENTS?**

20

21 A. Yes. I am providing the Staff with a copy of Wabash Telephone Cooperative,
22 Inc.'s December 31, 2000, Trial Balance.

23

24 **Q. HAVE YOU PROVIDED THE REQUISITE INFORMATION FROM**
25 **WABASH TELEPHONE COOPERATIVE, INC. EXHIBIT 1.0,**
26 **SCHEDULE 1.01 TO MR. SCHOONMAKER FOR HIS USE IN**
27 **COMPILING THE COMPOSITE RESULTS FOR ALL COMPANIES**
28 **SEEKING FUNDING IN CONNECTION WITH HIS TESTIMONY?**

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30 A. Yes, I have.

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Q. IS WABASH TELEPHONE COOPERATIVE, INC. EXHIBIT 1.0, SCHEDULE 1.01 TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE, INFORMATION AND BELIEF?

A. Yes, it is.

Q. HAVE YOU MADE ANY OF THE STANDARD ADJUSTMENTS THAT HAVE BEEN AGREED UPON BETWEEN THE IITA AND STAFF?

A. Yes, I have.

Q. PLEASE DESCRIBE EACH OF THE ADJUSTMENTS THAT YOU HAVE MADE TO WABASH TELEPHONE COOPERATIVE, INC.

I have made standard adjustment #1 to include RTB Stock in the amount of \$131,200. This amount is included in Wabash's 1402 accounts.

Q. HAVE YOU MADE ANY OF NON STANDARD ADJUSTMENTS THAT WERE NOT AGREED UPON BETWEEN THE IITA AND STAFF?

A. Yes, I have.

Q. PLEASE DESCRIBE EACH OF THE NON-STANDARD ADJUSTMENTS THAT YOU HAVE MADE TO WABASH TELEPHONE COOPERATIVE, INC.

A. I have made one (1) non-standard adjustment on Wabash Telephone Cooperative, Inc.'s Exhibit 1.0. These adjustments are summarized in Schedule 1.02.

1 The adjustment removes non-regulated items appearing in Wabash Telephone
2 Cooperative, Inc.'s RUS 479 report filed with the Commission. The adjustment
3 removes \$2,643 of non-regulated, net pay station investment from Wabash
4 Telephone Cooperative, Inc.'s Exhibit 1.0, Line 1, Net Regulated Plant.

5

6

7 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON BEHALF**
8 **OF WABASH TELEPHONE COOPERATIVE, INC.?**

9

10 **A. Yes, it does.**

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12

Wabash Telephone Cooperative, Inc.
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000

Line #	Description	Source	Amount	Adjusted Amount	Adjusted Amount
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 6,751,732	\$ 128,557	\$ 6,880,289
2	Materials and Supplies Inventory	Page 2, 13-Month Average	271,108		271,108
3	Customer Deposits	Form 23A, P 8, 4040	34,628	-	34,628
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	-	-	-
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			7,116,769
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	3,760,983	-	3,760,983
8	Less: Depreciation Expense	Form 23A, P 13, 6560	1,182,923	-	1,182,923
9	Total WC Operating Expense	line 7 - line 8	2,578,060	-	2,578,060
10	WC OE Requirement	line 9 * 45 / 360			322,258
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			322,258
13	Total Rate Base	line 5 + line 12			7,439,027
14	Total Operating Revenues	Form 23A, P 11, Total	4,509,603	-	4,509,603
15	Less: Illinois High Cost Fund		611,173	-	611,173
16	Net Operating Revenues	line 14 - line 15	3,898,430	-	3,898,430
17	Total Operating Expenses	Form 23A, P 14, Total	3,760,983	-	3,760,983
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	14,592	-	14,592
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	122,855	-	122,855
21	Income Tax Expense	line 34			-
22	Net Operating Income	line 20 - line 21			122,855
23	Return on Rate Base	line 22 / line 13			1.65%
24	After-tax Cost of Capital				12.60%
25	Target Net Operating Income	line 24 * line 13			937,317
26	Adj to Achieve Target Return on RB	line 25 - line 22			814,462
27	Gross Revenue Conversion Factor	line 35			1.0000
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			814,462
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			122,855
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			-
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			122,855
33	Federal Income Tax Expense	line 32 * 34.00%			-
34	Total Imputed Income Tax Expense	line 31 + line 33			-
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.0000

Wabash Telephone Cooperative, Inc.
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Material & Supplies Worksheet and Other Information

Line #		
1	December-99	\$115,506
2	January-00	\$114,035
3	February-00	\$125,177
4	March-00	\$183,386
5	April-00	\$251,812
6	May-00	\$199,800
7	June-00	\$218,493
8	July-00	\$361,182
9	August-00	\$367,554
10	September-00	\$428,222
11	October-00	\$371,454
12	November-00	\$356,022
13	December-00	\$431,764
14	13 Month Average	\$271,108

Sale/Lease Back Arrangement

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The company does not have any sale(s)/lease back arrangement.
The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates

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The company does not have any lease agreements with affiliates.
The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

Wabash Telephone Cooperative, Inc.
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 435,502
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 661,086
3	State Access Revenues	Trial Balance 12/31/00	\$ 859,279
4	State High Cost Support	Exhibit 1.01, Page 1, Line 15	\$ 611,173
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 98,422
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 2,665,462
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 218,136
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 775,279
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 320,784
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 56,216
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 1,370,415
12	Misc Revenues	Trial Balance 12/31/00	\$ 473,728
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 4,509,605</u>

Wabash Telephone Cooperative, Inc.
Summary of Adjustments

Adjustment 6

	Dr.	Cr.
Net Plant In Service		2,643

To remove Net Paystation Investment from Regulated Plant

Standard Adjustment #1

RTB Stock	\$	131,200
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To record the RTB Stock that the company has on their books